



STATE OF DELAWARE

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MEMORANDUM

June 15, 2018

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: IN THE MATTER OF THE APPLICATION OF TIDEWATER UTILITIES, INC. FOR THE APPROVAL OF THE SEMI-ANNUAL ADJUSTMENT TO THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE ("DSIC") PURSUANT TO 26 DEL. C. § 314.  
(FILED MAY 24, 2018 – PSC DOCKET NO. 18-0346)

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On July 9, 2001, the General Assembly and the Governor enacted 26 *Del. C.* § 314, which permits water utilities to impose a Distribution System Improvement Charge ("DSIC Rate") during the period between full rate case proceedings. This DSIC Rate recovers a return on the water utility's eligible capital improvements and its associated depreciation expenses. Eligible capital improvements include non-revenue producing plant that is in service and not already included in rate base and are:

1. Replacement water plant, such as mains, services, meters, or hydrants that are worn out, deteriorated, or had negative impacts on water quality or reliability of service;
2. Extensions to eliminate dead ends which were negatively impacting water quality or reliability of service;
3. Relocations of facilities due to government actions such as highway relocations;
4. Water plant projects identified in the Governor's Task Force report concerning adequate water supplies; or
5. New or additional plant necessary to meet changes in federal or state water quality standards, rules, or regulations.

This DSIC Rate can be adjusted semi-annually for eligible plant that was placed in service during the 6-month period ending two-months prior to the effective date of the applied-for DSIC Rate. These filings can be made semi-annually at least 30 days prior to the effective date of either January 1 or July 1 of each year. A water utility calculates the DSIC Rate as a percentage of a customer's total water charges and

then adds this charge to the customer's water utility bill. Between rate cases, the DSIC revenues are capped at 7.5% of the amount billed to customers under the Commission-approved rates and charges. However, the DSIC Rate increase applied by a water utility company cannot exceed 5% within any 12-month period.

On May 24, 2018, Tidewater Utilities, Inc. ("Tidewater") filed an application to adjust its DSIC Rate. Tidewater's current DSIC Rate of 2.99% effective January 1, 2018, was approved on December 21, 2017, in Commission Order No. 9162. Tidewater is seeking the approval to decrease its DSIC Rate from 2.99% to 1.24% with an effective date of July 1, 2018. This is based on net additional plant of \$57,884, and an associated semi –annual depreciation expense of \$1,298, placed into service during the 6-month period of November 1, 2017 – April 30, 2018. The reduction in the DSIC Rate is due to: (1) the change in Tidewater's federal income tax rate from 35% to 21% and (2) the correction of Tidewater's pre-tax cost of debt revenue conversion factor<sup>1</sup>. The DSIC Rate calculation also includes an adjustment for over-collections in the amount of \$107,959 plus interest in the amount of \$3,903 for the period January 1, 2017 – December 31, 2017, for a total over-collection adjustment amount of \$111,862.

The reduction in the DSIC Rate is expected to result in a reduction of the bill of an average Residential customer by approximately \$3.39 per quarter compared to rates currently in effect.

Staff recommends that the Commission permit this DSIC Rate to become effective on July 1, 2018, provided this DSIC Rate shall remain subject to Staff's review, audit, and an annual reconciliation based upon the 12-month period ending December 31, 2018.

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<sup>1</sup> The period from January 2018 through June 2018 was also impacted by the pre-tax rate of return calculation error and the reduction in Tidewater's Federal Income Tax rate afforded by the Tax Cuts and Jobs Act. Any over-collection of the DSIC revenue requirement for the period January 2018 through June 2018 will be addressed in Tidewater's next DSIC filing.